

EXHIBIT 3

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 26, 1935
X-9187

SUBJECT: Nonmember bank clearing accounts.

Dear Sir:

There is inclosed for your information a copy of a letter, together with accompanying inclosures, addressed to Mr. Stevens, Chairman of the Board of Directors of the Federal Reserve Bank of Chicago, with respect to a question of policy raised by him as to the circumstances and conditions under which clearing accounts of nonmember banks should be accepted under the authority of Section 13 of the Federal Reserve Act.

Very truly yours,

Chester Morrill

Inclosures.

Chester Morrill,
Secretary.

TO ALL CHAIRMEN OF THE FEDERAL RESERVE BANKS EXCEPT CHICAGO

X-9187-a

April 26, 1935.

Mr. E. M. Stevens, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

Reference is made to your letter of November 30, 1934, raising a question of policy with respect to the circumstances and conditions under which clearing accounts of nonmember banks should be accepted under the authority of Section 13 of the Federal Reserve Act. It appears that in the particular case referred to in your letter the non-member bank is not at present eligible for membership, that it does not need the Federal Reserve facilities for exchange and collection purposes as it may use the facilities of its correspondent downtown Chicago bank to the same end, and that it desires to obtain the clearing privileges at the Federal Reserve bank for the purpose of avoiding exchange and collection charges now made by its correspondent.

In your letter you asked, first, whether your bank was out of line with the other Reserve banks in its general policy with respect to the acceptance and rejection of clearing accounts. Following the receipt of your inquiry the Board sent out a letter, B-1044, under date of December 20, 1934, to the chairmen of all other Reserve banks, requesting of each of them a statement showing the extent to which non-member clearing accounts were being carried, the circumstances under which they were opened, and the policy followed by the Reserve bank in

Mr. E. M. Stevens - #2

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accepting or refusing to accept clearing accounts of nonmember banks. For your information there is inclosed a summary of the replies of the respective Federal Reserve banks, together with a table showing the number of such accounts and the average balances therein during the month of November 1934.

With respect to your second question, whether the Board deems it wise for you to change your policy in cases where banks have applied for membership but have not yet been admitted, it is the Board's view that requests for the establishment of clearing accounts by nonmember banks should be passed upon by your directors in the light of all the circumstances surrounding each application. In view, however, of the provisions of existing law which makes membership in the System mandatory after July 1, 1937 for all banks whose deposits are insured by the Federal Deposit Insurance Corporation, the Board feels that a liberal attitude should be taken toward such applications provided, of course, the bank agrees to comply with the applicable provisions of the Federal Reserve Act and the rules and regulations issued thereunder.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

X-9137-b

**POLICY OF EACH FEDERAL RESERVE BANK IN CONNECTION WITH REQUESTS FOR THE
OPENING OF CLEARING ACCOUNTS FOR NONMEMBER BANKS**

(Based on replies received to Board's letter B-1044 of December 20, 1934)

Boston

No statement of policy is made in Boston's reply to the Board's letter but only one nonmember clearing account is carried, and that was opened incident to the withdrawal from membership of a trust company which decided that the nature of its business was such that continuation of membership was no longer desirable.

New York

"We have had no recent requests to open nonmember clearing accounts nor has it been our policy to encourage the opening of such accounts, as in actual practice we find it rather difficult to confine these accounts to the transactions outlined in Section 13 of the Federal Reserve Act."

Philadelphia

"Several years ago we opened a number of non-member clearing accounts to facilitate the handling of checks which we had to collect on those banks. These accounts were not properly handled, however, they constantly were attempting to draw against uncollected items, we got rid of them, and have not opened any since, except the three referred to" (former member banks, two of which are still largely indebted to the Federal Reserve bank while the third, though no longer indebted to the Federal Reserve bank, wants to be re-admitted to membership) "Our experience with non-member clearing accounts was so unsatisfactory that we are disinclined to accept any more."

Cleveland

"The general policy of the Federal Reserve Bank of Cleveland has been to give careful consideration to every application from a nonmember bank to open a clearing accountWhen an interview is arranged, we ask that a financial statement of the bank be furnished principally for the purpose of determining its acceptability as a member of the System and so that we may have some idea of what corrections may be necessary when formal application for membership is contemplated."

This seems to indicate that nonmember clearing accounts are opened only for banks contemplating membership. Two of the three nonmember clearing accounts, both opened in 1934, fall in this category, while the third is an account of a mutual savings bank opened in 1922 to enable the bank to spread its reserves, use the Federal Reserve collection facilities, and provide customers with exchange.

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Richmond

".....we have not encouraged the opening of these accounts, for the reasons which follow.

"1. The Act is not at all clear with respect to the amount of balance which we could require of the non-member bank or our right to refuse to pay checks if drawn against collected funds regardless of the fact that such payment would entirely absorb such funds. A strict interpretation would be that the only balance which could be required under the law would be a balance sufficient to offset uncollected items credited to the account. As we do not credit items to the reserve account of a member bank until collected, this might be taken to mean a zero balance of collected funds.

"2. After having had the experience that an inquiring non-member bank usually decided not to open a clearing account with us after becoming acquainted with the terms and conditions upon which we could accept such an account, and realizing that our collection facilities would be available through any member bank correspondent, we adopted the practice upon receipt of an inquiry to suggest to the non-member bank that its object (to obtain access to our collection facilities) could be obtained through its correspondent if such correspondent happened to be a member bank.

"3. From time to time, particularly during the early days of the System, we discussed the question of non-member bank clearing accounts with several other Federal Reserve banks in which we understood such accounts had been established and operated. From these conversations we got the very distinct impression that such accounts were not satisfactory in a relatively large number of cases, if not universally.

"4. the Federal Reserve bank has to guarantee all endorsements on all items passing through the account" (nonmember clearing account)..... "The fact that we are compelled to take this risk for member banks is in our opinion no reason why we should voluntarily assume it in the case of non-members, among whom we have always been prepared to expect a much larger number of failures than among members. Even if we ignore claims that may be a long time in coming to light, it remains a fact that the failure of any bank collecting any considerable volume of items through a Federal Reserve bank involves a period of some risk through the stoppage of payment, and otherwise, until all items in transit are accounted for."

Atlanta

"Practically the only requirements for opening non-member clearing accounts are that the non-member bank will remit at par for cash letters containing checks drawn on it and will maintain a balance on our books equal at all times to the amount of items outstanding for collection for its account."

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Chicago

"While the law makes it permissive for us to accept the accounts of nonmember banks for these particular purposes, we have not, as a policy over many years, done so, excepting in emergency cases. We have always considered that the member banks should have certain privileges that the nonmember banks are not entitled to,

"Usually, when a bank applies for membership, the time between its application and its final admission is not more than sixty days, and it is rather doubtful as to what advantage this would be to the bank in the interim. If we adopt the policy of accepting such accounts only from banks which have actually applied for membership and which we have approved in this office, it probably would not be of great importance either to us or to the bank so applying."

St. Louis

"The matter was presented to our Executive Committee in 1924 and it was decided that where nonmember banks wish to open accounts with us for the purpose of making use of our facilities for the collection of checks drawn on par banks and noncash collection items, and the accounts were acceptable to us, the banks be required to keep a collected funds balance with us equal to approximately 50% of what they would be required to carry with us were they member banks. As the result of this action, numerous accounts have been opened with us, as evidenced by the statement accompanying this letter". Nonmember banks in the City of St. Louis, that opened accounts with the Federal Reserve bank for the purpose of settling for debits in the local clearings, are required to maintain a balance of not less than 20 percent of the total clearings received from the Federal Reserve bank.

Minneapolis (Governor Geery)

"It has been our general policy to accept non-member clearing accounts from banks which agree to remit at par for checks presented by us for payment and to carry a collected funds balance in the account equivalent to the amount in process of collection."

"We have received a number of requests recently to open accounts for non-member banks for the purpose of depositing idle funds with us. These requests have usually indicated that the banks considered it would be convenient to pay for subscriptions to Treasury Department offerings by authorizing us to charge their accounts or to use the accounts in handling purchases and sales of direct obligations of the Government through our Securities Department. We have not accepted these accounts and have endeavored to restrict the accounts to active non-member clearing accounts."

Minneapolis (Mr. Peyton)

"It has been our custom to date to accept these accounts upon request from the applicant bank, providing the depositing bank met the terms of the Law, and we have requested nothing further from the applicant bank than that it meet such terms.

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Minneapolis (Mr. Peyton) (Cont'd)

"..... The elimination of interest on bank balances by reserve city banks undoubtedly has a tendency to encourage banks to open accounts with us and increase their balances here.

"With the present evident tendency on the part of Congress to encourage all banks to join the Federal Reserve System, it would seem to me to be good policy to continue this service, and even to extend it, if possible, in an effort to instill good will and to demonstrate to non-member banks some of the advantages of the Federal Reserve System.

"It has always been my theory that it is much more desirable to increase the membership of the Federal Reserve System by making the System attractive to the banks, rather than to force the banks in against their will, by legislation.

"While it may be a small advantage, still I think it may be noted here that an account carried by a non-member bank at the Federal Reserve Bank facilitates its government bond operations, particularly with regard to new issues."

Kansas City

Memo from Worthington to McAdams

"..... We have not refused to accept clearing accounts from nonmember banks but whenever inquiries have been received, we have pointed out the fact that the law provided for such accounts 'solely for the purposes of exchange or of collection' and that it was not intended that the authorization of such clearing accounts would make of the Federal reserve bank a nonmember bank depository.

"It has been our policy to further inform applicants that in the event the privileges of a nonmember clearing account were granted, we could not permit the drawing of drafts against such account except for the purpose of periodical transfers of funds to commercial bank correspondents and that the opening of such an account would not entitle a nonmember bank to the other facilities of the Federal reserve bank such as telegraphic transfers of funds, shipments of currency at the expense of the Federal reserve bank, safekeeping of securities, et cetera."

Dallas

"While we have not made a rigid requirement that parring non-member banks remit us in immediately available funds for cash letters, we always endeavor to have them remit in such funds, and in some instances they established clearing accounts with us rather than open accounts with local banks or banks that are members of our Reserve City Clearing House. Where banks apply for membership in the System it is our policy, pending the approval or disapproval of their application, to accept clearing accounts from them. We do not solicit nonmember clearing accounts, directly or indirectly, and where a nonmember bank plainly manifests that its only desire is to

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Dallas (Cont'd)

concentrate some of its funds with us it has been our general policy to disapprove its application, although immediately prior to and following the banking holiday of 1933 we relaxed this rule somewhat, being moved to do so by the reasons indicated in connection with the account of the _____ State Bank.

"I may add that it is sometimes difficult for us to determine the proper disposition to make of an application. We are anxious, of course, to establish friendly relations with all worthy nonmember banks in the district, but, on the other hand, we do not desire to do anything that would apparently work to the disadvantage of any of our member banks; therefore, in considering an application from a nonmember bank to become a clearing member we simply weigh all the facts and do the best we can."

San Francisco

"It has been our feeling that clearing accounts should be established for any non-member bank which remits to the Federal Reserve Bank at par in settlement of checks, provided the account is not operated at a loss to the Federal Reserve Bank."

"Approximately 36% of the non-member banks in the District carry accounts with the Federal Reserve Bank of San Francisco. We have believed that the association which is brought about through this service has done much to augment the good will between non-member banks and the Federal Reserve Bank of San Francisco. It has been our view that there was nothing to lose and indeed much to be gained by obtaining the good will of non-member banks. Should the time come when membership would become obligatory, less opposition would arise if a long record of friendly relationship had existed between the Federal Reserve Bank and institutions involved."

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NUMBER AND AMOUNT OF NONMEMBER CLEARING ACCOUNTS CARRIED
BY FEDERAL RESERVE BANKS

(Based on data reported in response to Federal Reserve Board's letter
B-1044 of December 20, 1934. Balances are in thousands of
dollars and are daily averages for November 1934)

Federal Reserve District	Total number of accounts	Aggregate average balances in Nov. 1934
Boston	1	1,541
New York	15	27,840
Philadelphia	3	605
Cleveland	3	2,107
Richmond	---	---
Atlanta	15	443
Chicago	1	400
St. Louis	95	4,086
Minneapolis	30	1,780
Kansas City	---	---
Dallas	10	625
San Francisco	128	10,792
Totals	301	50,219